



CITY OF LODI COUNCIL COMMUNICATION

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AGENDA TITLE: Discussion Regarding Electric Utility's Power Needs for Fiscal Year 2009 through 2011

MEETING DATE: November 20, 2007 (Shirtsleeve Session)

PREPARED BY: City Manager

RECOMMENDED ACTION: None.

BACKGROUND INFORMATION: Ken Weisel, Manager of Electric Services, will provide a summary of the City's power procurement needs in advance of a request to the Council to purchase up to \$10 million per year of energy for fiscal year 2009 through 2011.

FISCAL IMPACT: N/A

FUNDING AVAILABLE: N/A

Blair King
City Manager

BK/jmp

Attachment

APPROVED: _____

Blair King, City Manager



MEMORANDUM

Office of George F. Morrow, Director

TO: Blair King, City Manager
FROM: George Morrow, Electric Utility Director
DATE: November 15, 2007
SUBJECT: EUD's "Open Position" for FY09 through FY11

As you know, Lodi's Electric Utility Department (EUD) must procure wholesale energy to meet its customer load obligations for FY09 and beyond. In FY09, EUD's projected "open position" is approximately 112 gigawatt-hours (GWh) or about 23% of EUD's total customer load obligation.

The estimated of open position for FY10 is comparable to FY09. The present projected open position for FY11 is larger (70%) given the expiration of EUD's 25 MW purchase from ConocoPhillips on June 30, 2010.

To the extent EUD has a net open position, it is exposed to price risk associated with market volatility since prices regularly rise and fall in the wholesale energy markets, particularly in day-ahead, hour ahead, and real-time markets. To reduce exposure to this price risk to an acceptable level, EUD's open position can be reduced through strategic market purchases. In FY08, for instance, a series of energy and natural gas purchases were consummated which reduced EUD's open position from over 65 percent to approximately 6 percent so far.

Fiscal Year	Existing Open %	Laddering Guideline %
2008	6	5
2009	23	10
2010	25	25
2011	70	50

The table above highlights the current open position for FY08 through FY11. It also shows the target open position level endorsed by the City's Electric Risk Oversight Committee for those years. This "laddering concept" was discussed with the City Council on July 10, 2007 and provides for an open position of not more than 10% in the next fiscal year, 25% in the second fiscal year, and 50% in the third fiscal year.

To achieve an open position at or below the Laddering Guidelines will require EUD to make purchases (electricity or natural gas) in the open market. Under current market prices, the cost to close FY09's open position completely is approximately \$9.2 million. Similarly, the estimated cost to close FY10's open position completely is about \$10.6 million. The cost to close the FY11 open position to 50% is about \$9 million or \$29.9 million to close this position completely.

Staff will be requesting City Council authority to make strategic purchases over the next year to reduce the open positions for FY09-FY11 below the Laddering Guideline levels. At this point in time, the requested authority will be \$10 million per year for these years. (For information, the authorized purchasing authorization for FY08 was \$25 million.)